



## Linking Membership Fact Sheet - points to consider

# Linking Type D3A

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**Important:** These notes are based on current scheme rules and our understanding of these the present time. Future changes in the rules could affect the information given in these notes

### How LGPS benefits are worked out

Your deferred benefits – benefits built up in the final salary scheme to 31 March 2014

These are based on membership and final pay. This is usually your final year's pensionable pay, or one of the two previous years if higher.

Benefits built up in the CARE (Career average revalued earnings) scheme from 1 April 2014

At the end of March each year a pension equal to  $1/49^{\text{th}}$  of your pensionable pay for that year is added to your pension account ( $1/98^{\text{th}}$  if you are in the 50/50 section). If you receive reduced pay because of sickness, relevant child related leave or reserve forces leave, a notional figure based on the pay you would have received in the 12 weeks prior to reduction is used to calculate your pension. Your pension account is revalued every year in line with the cost of living.

**If you choose to link your benefits – you'll then have only one set of benefits – so you'll have:**

**A current pension account** - made up of:

1. Pension bought in the CARE scheme by a transfer of your membership from your old job in the final salary scheme
- +  
2. Pension built up in the CARE scheme in your new job

**Pension sharing order** – if you have a pension sharing order applied to your benefits and your benefits are linked, this order will be transferred to your current pension account.

**If your benefits remain separate – you'll keep your deferred benefits and build up separate benefits in your current job – so you'll have:**

**Deferred benefits** made up of:

Benefits based on membership and final pay from your old job for membership of the final salary scheme (plus cost of living increases)

+

**A current pension account**

made up of:  
Pension built up in the CARE scheme in your new job

Cost of living increases – Deferred benefits are increased each April so they maintain their value.

### **Comparing benefit values**

You should compare the current value of your deferred benefits with the pension that linking would buy for you in the CARE scheme

- **Current value of Deferred Benefits** – these figures were shown in the annual **Deferred Benefit statement** we sent you
- **Estimated CARE pension** – this figure was shown in the **Linking Options Available** sheet we sent you

At retirement you will be able to give up part of your pension for a bigger lump sum (this applies whether or not you decide to link your benefits)

### **Cost of living increases**

Deferred benefits are revalued each April so they maintain their value.

The total pension in your current pension account is also revalued each April to keep pace with inflation.

If we have a year of negative inflation (which is a rare event) – the value of your deferred benefits would remain the same (they can't be reduced), but the total value of your current pension account could go down.

### **Normal Pension Age (NPA)**

This is the earliest age you can retire and draw your benefits without having any reductions applied.

As a different Normal Pension Age could apply to different parts of your benefits – you should read this section as well as comparing benefit values.

### **Your Deferred Benefits**

- All benefits must be drawn at the same time; but
- A different NPA could apply to different parts of your benefits, so any reductions would cease to apply to different parts on different dates
- The reductions decrease the closer you get to NPA
- Your deferred benefit statement shows the earliest date your deferred benefits can be paid unreduced.

### **Your current pension account**

- The NPA for your CARE pension is linked to your state retirement age (with a minimum age of 65).
- If you link your benefits - this will include the pension that is bought by the transfer
- Your NPA will change if your state retirement age changes.

### **The 85 year rule and linking your benefits**

**Your deferred benefits – the 85 year rule** can only apply to you if you joined the scheme before 1 October 2006

**Applies automatically if** – at the date you draw your pension:

- You are aged at least 60; and
- your age (in whole years) **plus** your membership and potential membership (at full length and in whole years) adds up to 85 or more

**Applies to:**

- Members born before 1 April 1956 – to all benefits built up to 31 March 2016
- All other members – benefits built up to 31 March 2008 – some additional protection applies to some members born between 1 April 1956 and 31 March 1960

**If you link your benefits:**

- The 85 year rule will not apply to the pension bought in the CARE scheme by a transfer of your membership from your old job in the final salary scheme.

- It will apply to any pension built up in the CARE scheme in your new job during the 'protected membership period' shown above.
- The break in membership between the date you left your previous job and the date you rejoined the scheme will move the date you meet the 85 year rule to a later date.

### **Leaving before retirement**

If you opt out of the scheme with less than 3 months membership in your new job:

- Any contributions you have paid will be refunded to you by your employer though your pay
- You will no longer have the option to link your deferred benefits - as you will be treated as though you had never been a member of the scheme

If you opt of the scheme with at least 3 months membership, or leave your new job, before being entitled to payment of retirement benefits:

- If you've chosen to keep your benefits separate - you will be awarded deferred benefits (you won't be able to claim a refund of the contributions you have paid as your earlier deferred benefits give you a benefit entitlement in your new job)
- If you've chosen to link your benefits - your entitlement will depend on the membership you have in the scheme

### **Transferring pension rights**

- Even if you elect not to link your deferred benefits to your current pension account – you won't be able to transfer these deferred benefits to a different scheme until you cease to be a member of the scheme in your current job
- You won't be entitled to a transfer once you are within 1 year of (or past) your NPA

### **Early retirement**

If, after completing 2 years membership, you retire early due to:

- Voluntary retirement over age 55 (reductions may apply); or
- Redundancy or efficiency over age 55; or
- Ill health at any age (must satisfy scheme medical criteria)

you will only be paid the benefits from your current membership, if you have kept your deferred benefits separate.

Your separate benefits will be paid later, from your NPA (unless the ill health criteria for these to be paid early is also satisfied, or other early retirement provisions apply).

### **Conversion rates**

If, in 2007, you made an election to retain better pension to lump sum conversion rates for your deferred benefits, and you decide to link now - the old rules will no longer apply.

### **Death in service benefits**

**Lump sum death grant** - the amount payable would be:

- If you link your benefits – three times your assumed pensionable pay at date of death (this means any reduction in your pay due to sickness or relevant child related leave is ignored).
- If you retain separate benefits – the higher of three times your assumed pensionable pay at date of death OR the combined lump sum payable in respect of all deferred benefits and any pensions in payment.

**Eligible partner's and children's pensions** – the amount of these would be affected by whether or not you decided to link your benefits.

### **Tax implications**

In most cases there are no tax implications when linking benefits. However, there is a limit by which the value of all your pension benefits may increase in any one year without you having to pay a tax charge. This is called the annual allowance and includes pension benefits from all pension schemes. If your benefits increase significantly as a result of linking, you may exceed the annual allowance. However, you may still not have to pay a tax charge if you have unused allowance from the 3 preceding tax years. More information about the annual allowance can be found at [www.hmrc.gov.uk/pensionschemes/tax-basics.htm](http://www.hmrc.gov.uk/pensionschemes/tax-basics.htm)

In some instances this tax charge can be paid by the scheme and recovered from pension benefits.

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## HMRC protection certificates

**If you applied to HMRC for, and hold, Fixed Protection 2012, Fixed Protection 2014 or Enhanced Protection, please read the following notes.**

i) if you hold Fixed Protection 2012, Fixed Protection 2014 or Enhanced Protection you will lose the relevant protection if you join the LGPS and you do not aggregate your benefits (as the new period of membership in the LGPS will be treated as a new pension 'arrangement'). If you wish to retain your Fixed Protection 2012, Fixed Protection 2014 or Enhanced Protection it will be necessary to opt out of the LGPS within 3 months of joining, thereby ensuring you are treated as never having been a member of the scheme on this occasion.

ii) if you hold Fixed Protection 2012 or Fixed Protection 2014 you will lose the relevant protection if:

- you join the LGPS, and
- aggregate your benefits, and
- HMRC were to deem this to be a new pension 'arrangement'.

However, we understand that the Department for Communities and Local Government, being the department responsible to the relevant Minister (the 'responsible authority' under the Public Service Pensions Act 2013) take the view that the relevant LGPS Regulations provide a single arrangement within a single scheme. HMRC have indicated that, in individual cases, they are not in a position to say whether or not they agree with that view. If the DCLG view is correct and HMRC do not deem it to be a new pension 'arrangement' you will not lose protection unless you have 'benefit accrual'. You would lose Fixed Protection 2012 or Fixed Protection 2014 at the point at which 'benefit accrual' occurs (which could be immediately upon aggregation or at some point thereafter) - see [www.hmrc.gov.uk/manuals/](http://www.hmrc.gov.uk/manuals/) for more information on 'benefit accrual'.

If you wish to make certain that you retain your Fixed Protection 2012 or Fixed Protection 2014 it will be necessary to opt out of the LGPS within 3 months of joining, thereby ensuring you are treated as never having been a member of the scheme on this occasion.

iii) if you hold Enhanced Protection you will lose that protection if:

- you join the LGPS, and

- aggregate your benefits, and
- HMRC were to deem this to be a new pension 'arrangement'.

We understand that the Department for Communities and Local Government, being the department responsible to the relevant Minister (the 'responsible authority' under the Public Service Pensions Act 2013) takes the view that the relevant LGPS Regulations provide a single arrangement within a single scheme. HMRC have indicated that, in individual cases, they are not in a position to say whether or not they agree with that view.

If the DCLG view is correct and HMRC do not deem it to be a new pension 'arrangement' you will not lose protection even if you then have 'relevant benefit accrual' (i.e. benefits at retirement exceed the value of your benefits at 5 April 2006 as increased after then, in general terms, by the greater of 5% per annum, the increase in the cost of living or increases in your pensionable pay). This is because you would be able to notionally split the crystallisation of your defined benefit rights on retirement. This would allow you to reduce your tax liability by crystallising benefits below the 'relevant benefit accrual' limit so Enhanced Protection would be retained during that crystallisation. When the remaining benefits are crystallised, Enhanced Protection on those benefits would be lost. You would lose the Enhanced Protection if you were to pay contributions into a money purchase pension arrangement (e.g. you were to pay into the LGPS AVC facility) other than to a life assurance policy providing death benefits that started before 6 April 2006, or if you were to start a new pension arrangement, or if you were to transfer your LGPS benefits to another defined benefit pension scheme.

If you wish to make certain that you retain your Enhanced Protection it will be necessary to opt out of the LGPS within 3 months of joining, thereby ensuring you are treated as never having been a member of the scheme on this occasion.

The above is summarised in the following table:

<b>Assuming you do not opt out within 3 months</b>	<b>HMRC position</b>	<b>Fixed Protection 12</b>	<b>Fixed Protection 14</b>	<b>Enhanced Protection</b>
You have a deferred benefit in the LGPS, re-join the LGPS and you do not aggregate benefits	n/a	lost	lost	lost
You have a deferred benefit in the LGPS which includes pre 1.4.14 membership, re-join the LGPS and you aggregate benefits	if separate arrangement	lost	lost	lost
You have a deferred benefit in the LGPS which includes pre 1.4.14 membership, re-join the LGPS and you aggregate benefits	if same arrangement	lost if benefit accrual occurs	lost if benefit accrual occurs	not lost - notional split benefits
If you opt out within 3 months you would be treated as never having been a member of the scheme and your protection would not be lost.				